HUGH RUSSEL LIMITED

annual report 1972

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Senior Management Reorganization

At the meeting of the Board of Directors, February 16, 1973 a reorganization of senior management responsibilities was approved to meet the Company's prospects for further growth.

Mr. G.D. Russel was appointed Honorary Chairman and was succeeded as Chairman by Mr. A. D. Russel who will remain Chief Executive Officer.

Mr. J. P. Foster was appointed President with responsibilities for the Company's acquisition program and operations outside the historic base of steel service centres.

Mr. M. D. Glenn will continue to be responsible for the expanding steel service centre operations as President of Russelsteel and Vice-President and Director of Hugh Russel Limited.

Mr. G. D. Shearer, Treasurer and a Director of Hugh Russel will move his offices from Montreal to Toronto.

To the Shareholders

A number of important milestones were achieved during 1972. Net Earnings, which includes extraordinary profits, reached \$2.7 million, exceeding \$2 million for the first time. Basic earnings per common share before extraordinary profits increased to \$1.66 vs \$.59 in 1971.

Through the acquisition of the Sumner Group, Hugh Russel entered the plumbing and heating, hardware and building materials market. This is a market in which we have been keenly interested for some years and one in which we hope to realize considerable growth in future.

A great deal of effort was devoted during the year to developing a major new financing. This effort culminated in filing two prospectuses with the Ontario Securities Commission and other jurisdictions where the issues were to be sold. One was for the issuance from Treasury of 500,000 common shares and the other, the sale of \$5 million Series "C" secured debentures. Early in 1973, the Company received more than \$10½ million in new long term capital from these issues which ensures that the investment plans which we have been developing can be carried out.

Our fundamental objective remains unchanged, namely to provide our shareholders with an above average rate of return on their investment. Our primary field of interest, wholesale industrial distribution, is one in which we have been able to produce a 15.9% compound rate of growth in basic earnings per common share over the past 10 years. We believe we have met our objective in the past and that we will be able to do so in the future.

During 1972 and for the second time in two years, the directors authorized a two for one subdivision of the Company's common shares. This, plus the new issue from Treasury, goes a long way to improving the marketability of the Company's shares on the stock market. We have now virtually realized a long held goal of having 2 million common shares issued and more than 2,000 shareholders. We will continue to work to improve the ease with which investors can buy and sell the Company's shares.

The directors also increased dividends twice during 1972, a total of 40%, to 28¢ per common share. It is the intention of the directors to see that future dividends keep pace with increasing earnings.

Hugh Russel now deals with more than 25,000 industrial and retail concerns across Canada. Such a broad base of contact provides us with some insight into the thinking of industry in general. It is hard to recall a time when feelings were as optimistic as they appear to be today. There is hardly an area of the country or a segment of the economy which does not share this feeling. We can but reflect this feeling that the coming year will be a period of excellent opportunity.

The fine results achieved during 1972 are a tribute to all employees who contributed to our progress with extra effort and enthusiasm. Speaking for the board of directors, we wish to thank those without whose continuing efforts and individual achievement we would be unable to accomplish our objectives for the future.

February 16, 1973.

A. D. RUSSEL
Chairman

J. P. FOSTER
President

The Highlights of 1972

1. EARNINGS per common share before extraordinary items were $1.66, (extraordinary profits would increase this figure to $1.90). This represented a 181% improvement over the 1971 levels of $0.59.

2. SALES reached $99 million up from $67 million in 1971. Of this 47% increase, 24% came from the growth in existing operations and 23% came from our acquisition of the Sumner and Calkin group of companies.

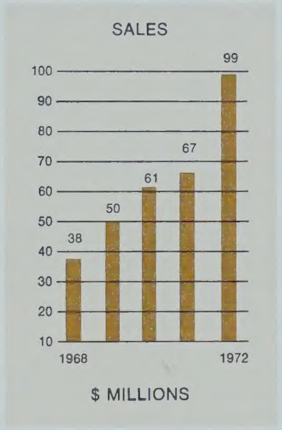
3. NET EARNINGS of $2,712,000 were more than double our 1971 record of $964,000. Net earnings include extraordinary profits of $320,000.

4. SUBSEQUENT EVENTS. Through recent issues of debt and equity the Company has raised $10.5 million to finance further growth.

5. SUMMARY FINANCIAL DATA

	1972	1971	% Change up or down
Net Sales $(000)	99,106	67,350	up 47%
Net Earnings $(000)	2,712	964	up 181%
Earnings per common share before extraordinary items ($)	1.66	.59	up 181%
Cash flow per common share ($)	2.36	1.13	up 109%
Capital employed $(000)	21,205	18,087	up 17%
Earnings before extraordinary items to capital employed at the start of the year (%)	13.3	6.5	up 6.8% pts.
Earnings before extraordinary items to common shareholders' equity at the start of the year (%)	37.0	13.4	up 23.6% pts.
Capital expenditures $(000)	1,177	825	up 43%
Average annual compound rate of growth of basic earnings per common share since going public in 1962. (%)	15.9	13.8	—

Report on Operations



SALES BY QUARTER $(000)

	1969	1970	1971	1972
1st	10,170	14,393	14,165	19,077
2nd	11,762	16,458	18,165	25,050
3rd	14,284	15,359	17,413	27,188
4th	13,603	14,903	17,607	27,791
Total	49,819	61,113	67,350	99,106

FINANCIAL RESULTS

Any review of 1972 financial results would be incomplete without first discussing the major financing completed early in 1973. With Wood Gundy Limited as underwriter the Company effected a broad retail distribution of 500,000 common shares from treasury at $12.00/share to net the Company $5,670,000. Wood Gundy then placed a $5,000,000 issue of 8½% Secured Sinking Fund Debentures, Series "C", to net the Company $4,912,500. In total these two issues provided the company with $10,582,000 in additional funds. This one financing has provided the Company with more funds than raised in total in the ten years since going public in 1962.

The full significance of this financing will emerge from the following review of 1972 results.

Sales and Profits

Sales of $99,105,946 were ahead of 1971 by 47%. Net earnings, including extraordinary items of $320,285 reached $2.7 million, ahead of 1971 by 181%. Earnings per common share at $1.66 (excluding extraordinary items) are about 2.8 times earnings per common share in 1971.

These record results were achieved over the results of 1971 which was also a record year.

Cash Flow

Cash flow increased to $3.3 million from $1.7 million ($2.36 per common share versus $1.13 in 1971). This significant increase in flow of funds facilitates the financing of our investment programs in the operating companies with internally generated funds.

Working Capital

The balance sheet indicates working capital of some $11 million at December 31, 1972 a 22% increase over 1971. The additional moneys just raised increases working capital to more than $21 million or about two and a third times the 1971 figure and emphasizes the Company's ability to devote new funds to new investments.

Capital Expenditures

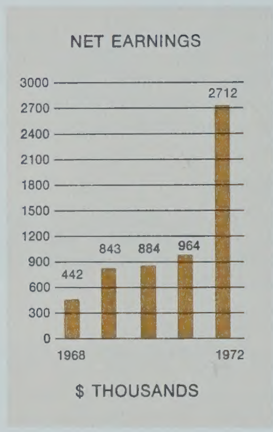
Capital expenditures of $1.2 million in 1972 were up from $825,000 in 1971. The major items were the completion of the expansion of the Russelsteel warehouse in Toronto and the new Russelsteel warehouse in Saskatoon; work also commenced on a new Russelsteel warehouse in Edmonton and the expansion of the Russelsteel facilities in Calgary. Ceeco also significantly expanded its manufacturing capability. The Sumner warehouse in Stellarton, Nova Scotia was also expanded during the year. With the exception of Ceeco these additional facilities will provide adequate capacity for current and prospective business.

Capital Employed

Including the newly raised moneys, capital employed is now in excess of $31 million, $13 million more than what it was at the end of 1971. This substantial asset base will ensure the Company's ability to increase the scope of its activities.

Dividends

In keeping with the growth in earnings, the dividend rate on the Company's common shares was increased twice during 1972 bringing the current rate of payout to $0.28 per common share vs $0.20 at the beginning of the year.



EARNINGS BY QUARTER

Earnings per common share before extraordinary items based on average shares outstanding during each quarter.

Quarter	1969	1970	1971	1972
1st	$ .08	$ .18	$ .00	$ .22
2nd	$ .14	$ .19	$ .13	$ .38
3rd	$ .19	$ .13	$ .18	$ .49
4th	$ .17	$ .04	$ .28	$ .57
Total	$ .58	$ .54	$ .59	$1.66

Stock Split

The common shares were split on a two for one basis in September which coupled with the recent sale of 500,000 treasury shares brings important new liquidity to trading in the Company's stock.

DIVISION RESULTS

Both sales and profits for the Distribution Division in 1972 were substantially ahead of 1971. The Sumner Group of companies including T. P. Calkin Limited added about half of the additional sales and about one third of the additional profit contribution. The results of T. P. Calkin Limited were included for only the second half of 1972.

The Engineering Sales Division showed a turnaround from 1971 with sales ahead of last year and a reasonable profit earned. The Barker-Thorne Division was sold effective September 1 and W. Cockram & Co. was included for the first time.

Results are summarized in the table below.

(In thousands)	Sales		Profit contribution before tax and parent company expense	
	1972	1971	1972	1971
Distribution Division	94,295	64,476	4,880	2,683
Engineering Sales Division	4,811	2,874	139	(246)
Total	99,106	67,350	5,019	2,437

THE DISTRIBUTION DIVISION

The Distribution Division activities were very importantly increased in 1972 with the addition of the Sumner Group.

The Sumner Group

The Sumner Group operates in the Maritime Provinces and is engaged in the distribution of plumbing and heating supplies, hardware, building materials, home and garden supplies, home appliances and home entertainment products. The main companies in this group are Sumner Company Limited, Moncton Hardware Limited, Emerson and Fisher (70) Limited and T. P. Calkin Limited (acquired effective July 1, 1972).

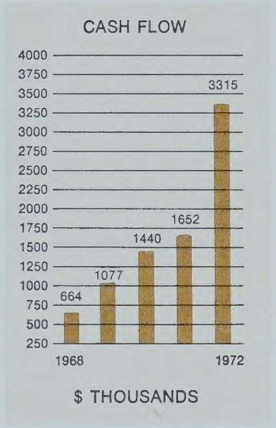
Operating ten wholesale and five retail outlets, the Sumner Group is the leading distributor in its field in the Maritimes. Of great significance is the fact that the Canadian wholesale market for the products carried by the Sumner Group is extremely large, about $4 billion in 1971. This is an area to which we propose to give considerable attention in our planning for growth.

The wholesale function of the Sumner Group is the same as that of Russelsteel and Canadian Bearings. The group buys and stocks large quantities of products (more than 40,000 items) which it warehouses and sells to the plumbing and heating trades, retail hardware trade, the construction industry, large general line retailers, and general industry. By fulfilling this function efficiently, the group plays an important part in moving products from the manufacturer to the consumer economically.

The small but expanding retail activities of the Sumner Group represents a logical and complementary forward integration of the Group's marketing function. Plans are being developed for further expansion of this activity.

Since joining Hugh Russel, the Sumner Group has performed well, exceeding budgets prepared at the beginning of 1972.

Planning is now in progress to streamline the administrative procedures of the



CASH FLOW

Comprises Earnings before extraordinary items, depreciation, and the amount by which deferred income taxes have increased or decreased per year.

	(000)	Per Common Share
1972	$3,315	$2.36
1971	$1,652	$1.13
1970	$1,440	$ .98
1969	$1,077	$ .77
1968	$ 664	$ .54

group to reduce costs and improve service to customers. In developing computer control of order processing and inventory, the Sumner Group will be able to draw on the systems work already completed by Russelsteel and Canadian Bearings.

The excellent marketing base established by the Sumner Group provides a firm foundation on which further growth can now take place.

Russelsteel

Russelsteel, a national chain of nine steel service centres, increased sales and profit contribution substantially during 1972.

The expansion program begun in 1971 is nearing completion. By the summer of 1973 this program will have added 55,000 square feet of space to the Toronto warehouse, a new 25,000 square foot warehouse in Saskatoon, a new 40,000 square foot warehouse in Edmonton and 50,000 square feet of new handling facilities in Calgary. This $2,000,000 investment in the new plant will provide Russelsteel with substantially increased capacity.

Demand continues buoyant and there is every indication of increased profitability in the coming year.

Canadian Bearings

Canadian Bearings sales increased in 1972 with a very substantial increase in profit contribution in 1972 over 1971. This increase in contribution was, among other things, a result of a major reorganization and cost control program developed and executed in 1970 and 1971.

During the year a new branch was opened in Windsor and the St. Catharines branch was moved to new and larger quarters.

Plans are now well advanced for a considerable further expansion of Canadian Bearings activities, both in terms of products carried and markets served.

THE ENGINEERING SALES DIVISION

This division now comprises, Ceeco Machinery Manufacturing Limited, W. Cockram & Co., Limited and Materials Handling (formerly Larson & Epp). The Barker-Thorne division was sold effective September 1, 1972. During the first eight months of the year, Barker-Thorne recorded sales of $632,000 and incurred a loss before taxes of $128,000. Despite the eight month loss of Barker-Thorne, which has now ceased, the division earned a reasonable profit.

Ceeco

Ceeco sales more than doubled in 1972 with a substantial profit contribution.

Ceeco Machinery Manufacturing Limited is the leading designer and builder of wire and cable making equipment in Canada. The company is rapidly gaining an international reputation and acceptance in its field. During 1972 more than $1 million worth of equipment was built and delivered to a large wire and cable manufacturing company in Mexico. The company's first orders for European business were obtained and negotiations have commenced on substantial new business in South America.

The international aspects of Ceeco's business are such that studies are now underway to determine if sales offices in South America and Europe should be added to the United States sales office. Manufacturing in South America is also under consideration.

Demand for wire and cable manufacturing equipment has been strong in Canada, Mexico and South America, but weak in Europe and the United States where overcapacity created in the late 1960s is still being absorbed. Progress has been made in these latter markets in developing interest for Ceeco's equipment and the

company is confident that when demand does pick up, considerable business will be obtained.

Anticipated work is such that a major plant expansion is now in progress to provide additional capacity. Indications are that 1973 sales and profits will exceed those of 1972.

W. Cockram & Co., Limited

This small manufacturing plant located in Brantford, Ontario, manufactures domestic hot water boilers. Administratively, Cockram is part of the Sumner Group to which it sells most of its output.

During 1972 a reorganization was carried out which has increased sales effort and simplified the product line.

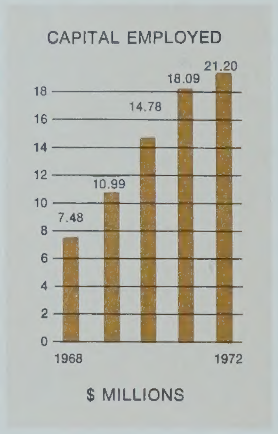
Cockram enters 1973 with a good order backlog and prospects for an increase in sales and profits.

Materials Handling

This activity was formerly Larson & Epp Industries Limited and will be a division of Russelsteel. With its offices in Vancouver, this division designs and sells material handling equipment to the pulp and paper, agricultural and natural resource industries in Western Canada.

The division enjoyed a good year in 1972 recording an increase in sales and profits over 1971 results.

A reorganization of the division was completed in 1972 which has strengthened marketing and reduced costs. The division enters 1973 well placed to capitalize on the continuing increase in industrial activity in Western Canada.



SUMMARY AND OUTLOOK

The excellent progress made during 1972 was the result of plans and investments made in the prior 5 year planning period.

We see fundamental reasons why our earnings will increase again in 1973.

Almost ⅔ of our 1972 profit growth came from existing operations. This growth should continue in 1973.

The Sumner Group has added a new profit stream. With funds provided by our recent financings, further growth is expected in this extremely large market.

The Canadian economy after several years in the doldrums has returned to a robust state of health. Current evidence points to further improvement in the economy through 1973.

Our skilled managements who run the various businesses which make up Hugh Russel continue to seek ways to expand profitably and improve customer service. Plant is being expanded and modernized. The management benefits from computer utilization are being steadily increased. Product lines are constantly being reviewed and upgraded. Organizations are being streamlined to reduce costs. The many improvements made in 1971 and 1972 are now paying dividends through the performance of effective marketing teams.

Young and aggressive management personnel are coming forward to insure sound direction of our affairs in the years ahead.

The Company is financially stronger today than it has ever been before, insuring the financial resources necessary to complete our investment plans.

Our objectives are clear and agreed, namely to concentrate our efforts on profitable growth in the field of wholesale industrial distribution while remaining alert to venture capital opportunities in other areas.

We are confident that 1973 will be another record year for Hugh Russel.

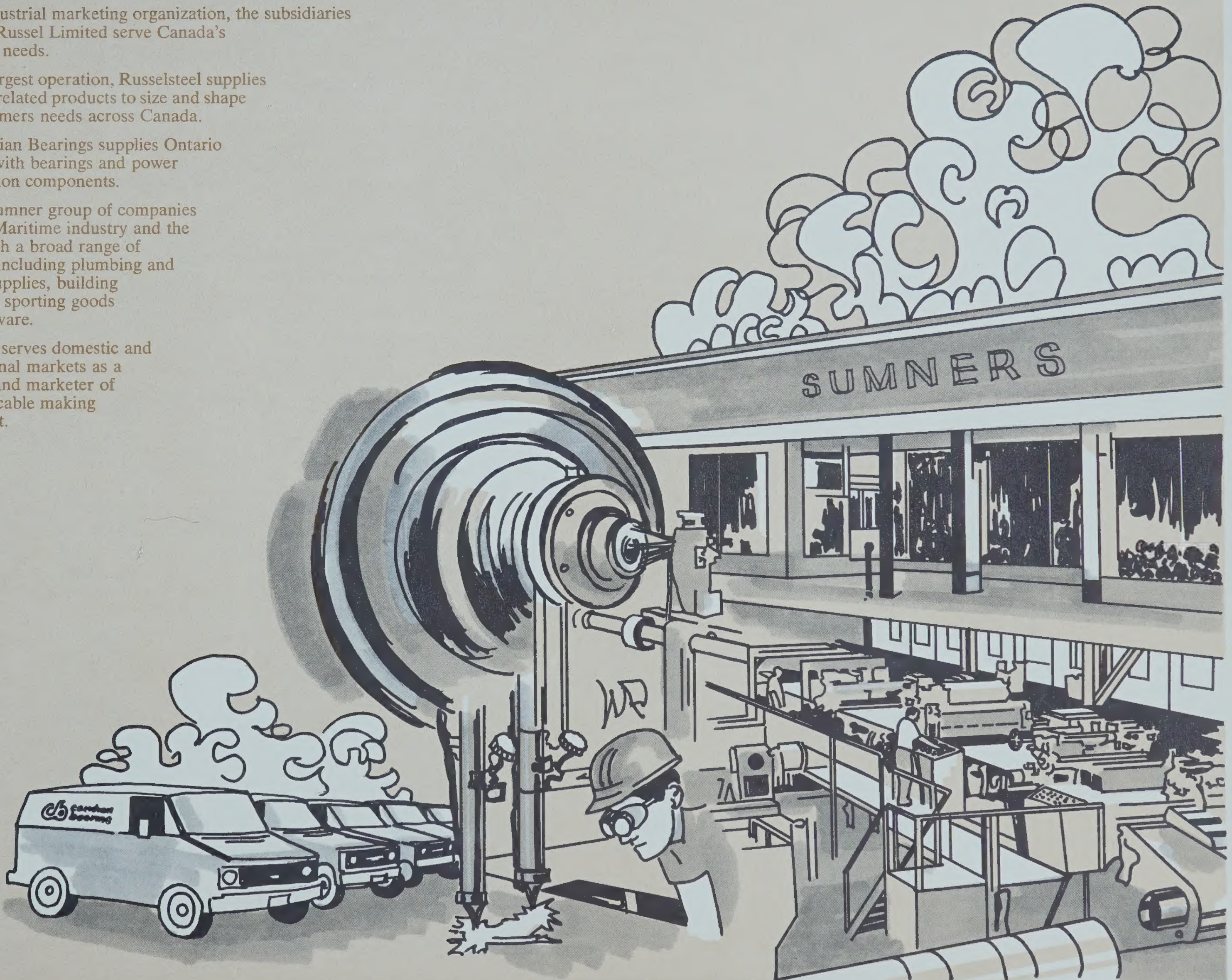
As an industrial marketing organization, the subsidiaries of Hugh Russel Limited serve Canada's industrial needs.

— Our largest operation, Russelsteel supplies steel and related products to size and shape and customers needs across Canada.

— Canadian Bearings supplies Ontario industry with bearings and power transmission components.

— The Sumner group of companies supplies Maritime industry and the public with a broad range of products including plumbing and heating supplies, building materials, sporting goods and hardware.

— Ceeco serves domestic and international markets as a designer and marketer of wire and cable making equipment.



Ten Year Summary

OPERATING RESULTS (THOUSANDS)	1972	1971
Net Sales	**$99,106**	$67,350
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	**$ 5,838**	$ 2,967
Depreciation	**$ 738**	$ 604
Interest on long-term debt	**$ 526**	$ 359
Income taxes	**$ 2,182**	$ 1,006
Minority interest	**—**	$ 34
Net earnings(1)	**$ 2,392**	$ 964
OPERATING STATISTICS(1)		
% Net earnings to net sales	**2.4%**	1.4%
% Net earnings to common shareholders' equity	**37.0%**	13.4%
% Net earnings to opening capital employed	**13.3%**	6.5%
% Total dividends to net earnings	**21%**	49%
PER SHARE OF COMMON STOCK(1) (Adjusted to reflect stock splits)		
Based on average common shares outstanding (thousands)	**1,326**	1,266
Net earnings (after preferred dividends)	**$ 1.66**	$ 0.59
Cash flow	**$ 2.36**	$ 1.13
Book value	**$ 6.24**	$ 4.70
OTHER STATISTICS		
Current assets/current liabilities (ratio)	**1.5:1**	1.5:1
Shareholders' equity/long-term debt (ratio)	**1.8:1**	1.8:1
Additions to facilities (thousands)	**$ 1,177**	$ 825
Number of common shareholders	**1,204**	837
BALANCE SHEET DATA (THOUSANDS)		
Current assets	**$39,480**	$27,524
Current liabilities	**$28,293**	$18,339
Working capital	**$11,187**	$ 9,185
Fixed assets at cost	**$13,260**	$11,056
Less accumulated depreciation	**$ 4,625**	$ 4,181
Net fixed assets	**$ 8,635**	$ 6,875
Other assets	**$ 1,383**	$ 2,027
Capital employed	**$21,205**	$18,087
Financed by:		
Long-term debt	**$ 6,515**	$ 5,282
Deferred income taxes	**$ 534**	$ 329
Minority interest	**—**	—
Contractual obligation	**$ 2,420**	$ 3,208
Shareholders' equity	**$11,736**	$ 9,268

(1) In 1972 based on earnings before extraordinary items.

1970	1969	1968	1967	1966	1965	1964	1963
$61,113	$49,819	$38,375	$32,473	$24,157	$22,975	$19,436	$15,015
$ 2,670	$ 2,413	$ 1,435	$ 1,210	$ 1,354	$ 1,309	$ 1,125	$ 631
$ 513	$ 310	$ 287	$ 245	$ 205	$ 155	$ 133	$ 121
$ 179	$ 148	$ 150	$ 153	$ 156	$ 50	$ 53	$ 58
$ 1,052	$ 1,072	$ 516	$ 371	$ 488	$ 577	$ 461	$ 140
$ 42	$ 40	$ 40	$ 6	—	—	—	—
$ 884	$ 843	$ 442	$ 435	$ 505	$ 527	$ 478	$ 312
1.4%	1.7%	1.1%	1.3%	2.1%	2.3%	2.5%	2.1%
13.4%	18.2%	9.8%	10.4%	12.9%	13.8%	14.2%	9.9%
8.0%	11.3%	5.9%	6.5%	7.8%	11.6%	11.7%	7.9%
53%	43%	56%	56%	47%	42%	36%	56%
1,254	1,254	1,244	1,232	1,178	1,168	1,156	1,152
$ 0.54	$ 0.58	$ 0.36	$ 0.36	$ 0.43	$ 0.45	$ 0.42	$ 0.27
$ 0.98	$ 0.77	$ 0.54	$ 0.64	$ 0.63	$ 0.61	$ 0.57	$ 0.38
$ 4.31	$ 3.98	$ 3.73	$ 3.68	$ 3.55	$ 3.33	$ 3.30	$ 2.92
1.3:1	1.5:1	1.3:1	1.4:1	1.4:1	1.5:1	1.4:1	1.6:1
3.4:1	3.6:1	1.9:1	1.9:1	1.7:1	1.6:1	5.7:1	4.6:1
$ 1,230	$ 437	$ 272	$ 392	$ 475	$ 1,153	$ 992	$ 51
798	760	611	643	667	691	620	661
$25,728	$17,659	$17,816	$14,091	$11,701	$10,025	$ 8,273	$ 7,411
$19,271	$11,523	$14,133	$10,385	$ 8,107	$ 6,475	$ 5,843	$ 4,700
$ 6,457	$ 6,136	$ 3,683	$ 3,706	$ 3,594	$ 3,550	$ 2,430	$ 2,710
$10,600	$ 6,054	$ 5,303	$ 5,045	$ 4,415	$ 4,041	$ 3,001	$ 2,321
$ 3,963	$ 2,470	$ 2,059	$ 1,785	$ 1,282	$ 1,140	$ 905	$ 940
$ 6,637	$ 3,584	$ 3,244	$ 3,260	$ 3,133	$ 2,901	$ 2,096	$ 1,381
$ 1,686	$ 1,273	$ 553	$ 514	—	—	—	—
$14,780	$10,993	$ 7,480	$ 7,480	$ 6,727	$ 6,451	$ 4,526	$ 4,091
$ 2,541	$ 2,292	$ 2,349	$ 2,399	$ 2,453	$ 2,500	$ 671	$ 730
$ 177	$ 58	$ 135	$ 200	$ 97	$ 67	$ 40	—
$ 356	$ 356	$ 356	$ 356	—	—	—	—
$ 3,000	—	—	—	—	—	—	—
$ 8,706	$ 8,287	$ 4,640	$ 4,525	$ 4,177	$ 3,884	$ 3,815	$ 3,361

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Statement of Earnings

For the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
Sales	**$99,105,946**	$67,349,848
Earnings from operations before deducting the following items:	**$ 6,548,672**	$ 3,462,704
Depreciation (note 7)	**737,893**	604,500
Interest on short-term debt	**711,238**	494,088
Interest on long-term debt	**525,901**	359,185
Earnings before income taxes and minority interest	**4,573,640**	2,004,931
Income taxes	**2,182,025**	1,006,284
Minority interest	**—**	34,166
Earnings from operations before extraordinary items	**2,391,615**	964,481
Extraordinary items (note 8)	**320,285**	—
Net earnings for the year	**$ 2,711,900**	$ 964,481
Earnings per common share:		
Before extraordinary items	**$ 1.66**	$ 0.59
Extraordinary items	**0.24**	—
After extraordinary items	**$ 1.90**	$ 0.59
Fully diluted earnings per share (note 9)		
Before extraordinary items	**$ 1.17**	$ 0.49
Extraordinary items	**0.16**	—
After extraordinary items	**$ 1.33**	$ 0.49

(See accompanying notes)

Consolidated Statement of Retained Earnings

For the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
Balance, beginning of year:		
As previously reported	**$ 5,535,868**	$ 5,051,021
Adjustment due to change in accounting practice (note 10)	**11,868**	—
As restated	**5,547,736**	5,051,021
Net earnings for the year	**2,711,900**	964,481
	8,259,636	6,015,502
Deduct:		
Dividends paid on common shares (including dividends on Class "B" shares and special tax thereon.)	**315,372**	253,266
Dividends paid on preferred shares	**190,031**	214,500
	505,403	467,766
Balance, end of year	**$ 7,754,233**	$ 5,547,736

(See accompanying notes)

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
FUNDS WERE OBTAINED FROM:		
Operations —		
Earnings before extraordinary items	**$ 2,391,615**	$ 964,481
Expenses not requiring a current cash outlay:		
Depreciation	**737,893**	604,500
Income taxes (deferred portion)	**185,501**	82,690
	3,315,009	1,651,671
Long-term debt issued	**417,000**	3,000,000
Common shares issued under stock option and employee purchase plans	**198,964**	47,768
Preferred shares issued in 1971 (note 12)	**77,058**	200,000
Sale of fixed assets	**1,069,295**	—
Additional contractual obligation	**49,816**	208,000
Sundry	**63,500**	125,316
	5,190,642	5,232,755
FUNDS WERE APPLIED TO:		
Purchase shares of subsidiary companies	**3,024,947**	—
Less working capital acquired	**2,884,058**	—
	140,889	—
Reduce contractual obligation	**837,789**	—
Purchase preferred shares for cancellation	**14,500**	182,986
Increase premiums on businesses previously acquired	**239,076**	414,405
Additions to facilities	**1,176,605**	824,279
Pay dividends	**505,403**	467,766
Reduce long-term debt	**274,436**	259,240
Purchase minority interest	**—**	355,834
	3,188,698	2,504,510
NET INCREASE IN WORKING CAPITAL	**2,001,944**	2,728,245
WORKING CAPITAL, BEGINNING OF YEAR	**9,184,687**	6,456,442
WORKING CAPITAL, END OF YEAR	**$11,186,631**	$ 9,184,687

(See accompanying notes)

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Balance Sheet

December 31, 1972
(with comparative figures at December 31, 1971)

ASSETS

	1972	1971
Current:		
Accounts receivable	**$19,155,912**	$12,359,377
Inventories, valued at the lower of average cost and market (net realizable value)	**19,687,528**	14,625,564
Prepaid expenses and other assets	**636,510**	407,752
Income taxes recoverable	**—**	131,458
Total current assets	**39,479,950**	27,524,151
Fixed, at cost (note 7):		
Land	**1,350,959**	805,485
Buildings	**6,734,383**	5,062,510
Machinery and equipment	**5,174,635**	5,188,111
	13,259,977	11,056,106
Less accumulated depreciation	**4,624,795**	4,180,781
	8,635,182	6,875,325
Premiums paid on acquisitions	**1,382,706**	2,026,587
	$49,497,838	$36,426,063

On behalf of the Board:

A. D. Russel, *Director*

M. D. Glenn, *Director*

(See accompanying notes)

LIABILITIES

	1972	1971
Current:		
Bank indebtedness (against which certain receivables and inventories are pledged)	**$12,691,466**	$ 8,727,852
Accounts payable and accrued charges	**12,855,310**	8,945,869
Income taxes payable	**1,195,013**	348,446
Long-term debt due within one year (note 2)	**225,750**	125,297
Contractual obligation due within one year (note 5)	**1,325,780**	192,000
Total current liabilities	**28,293,319**	18,339,464
Deferred income taxes	**533,401**	329,044
Long-term debt (note 2)	**6,515,042**	5,281,525
Contractual obligation (note 5)	**2,420,027**	3,208,000
Shareholders' Equity:		
Capital stock —		
Authorized (note 3)		
Issued (note 3):		
124,205 6½% preferred shares	**2,484,100**	3,314,500
791,282 Class "A" common shares 692,016 Class "B" common shares (1971 - 1,266,592 shares)	**1,418,144**	403,280
Contributed surplus (note 12)	**79,572**	2,514
Retained earnings	**7,754,233**	5,547,736
	11,736,049	9,268,030
	$49,497,838	$36,426,063

Notes to Consolidated Financial Statements

December 31, 1972

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries and include the earnings of subsidiaries since acquisition.

2. Long-term debt

The outstanding long-term debt at December 31, 1972 is as follows:

Series "A" 6¼% debentures	$ 2,050,000
Series "B" 9½% debentures	3,000,000
6½% general mortgage bonds	740,500
Note payable with interest at 1% over prime bank rate	350,000
10% mortgage payable	326,145
Other long-term debt	274,147
Total long-term debt	6,740,792
Less amounts due within one year included in current liabilities	225,750
Total	$ 6,515,042

Other long-term debt, described above, consists mainly of mortgages with interest rates varying from 5% to 10¾%.

The long-term debt matures at different times, with the greatest portion maturing October 15, 1985 and April 15, 1991. The amounts required to repay principal over the next five years are as follows:

1973	$225,750
1974	$242,450
1975	$298,250
1976	$327,050
1977	$340,850

The Series "A" and Series "B" debentures are secured by a first mortgage on the shares and fixed assets of Russelsteel Limited, and by a floating charge on the remaining assets of the Company and Russelsteel Limited. The trust deeds under which the debentures were issued call for progressive annual sinking fund payments to retire $1,500,000 Series "A" by 1984, and $2,250,000 Series "B" by 1990.

Under certain conditions, the terms of these trust deeds prohibit the Company from paying dividends other than cumulative preferred dividends or stock dividends. In addition, under the terms of the supplemental trust deed relating to the Series "B" debentures, certain general conditions are imposed. All of these requirements have been met.

3. Capital stock

A. During 1971 and 1972, the Company was authorized to divide its Class "A" and Class "B" common shares on a two-for-one basis in each year. Where applicable, the financial statements have been adjusted to give effect to these stock splits.

B. Preferred shares:

(i) Authorized —

The authorized preferred shares of the Company consist of 490,000 first preferred shares, $20.00 par value, and 17,499,030 second preferred shares, $0.01 par value. Of the first preferred shares, 165,000 have been designated as 6½% cumulative, redeemable, convertible first preferred shares, Series "A". These shares are redeemable by the Company at $24.00 or are convertible at the holder's option into Class "A" or Class "B" common shares on the basis of four common shares for each preferred share.

(ii) Issued and outstanding —

First preferred shares, Series "A"	Number of shares
At December 31, 1971	165,725
Minus:	
Shares purchased by the Company for cancellation	725
Shares converted to common	40,795
At December 31, 1972	124,205
Second preferred shares	nil

C. Common shares:

(i) Authorized —

The authorized common shares of the Company consist of 8,000,000 Class "A" shares of no par value, and 8,000,000 Class "B" shares of no par value. These shares are inter-convertible on a share for share basis at the holder's option.

(ii) Issued and outstanding —

	Number of shares Class "A"	Class "B"
At December 31, 1971	545,240	721,352
Add:		
Issued to employees under the provisions of the employees' share purchase plan for cash of $59,688	15,246	—
Issued upon exercise of stock options for cash of $139,276	38,280	—
Issued upon conversion of preferred shares	163,180	—
Issued upon conversion of Class "A" to Class "B" and vice versa	75,020	45,684
	836,966	767,036
Minus:		
Conversions of Class "A" to Class "B" and vice versa	45,684	75,020
At December 31, 1972	791,282	692,016

D. Shares reserved:

Authorized unissued common shares are reserved for possible future issue as follows —

	Number of shares Class "A"	Class "B"
For conversion of preferred shares	496,820	496,820
For conversion to Class "A" and to Class "B"	692,016	791,282
For options granted to officers and employees	79,624	—
For additional options to be granted	5,884	—
For the employees' share purchase plan	20,106	—
Total shares reserved	1,294,450	1,288,102

4. Stock options

Options granted to purchase Class "A" shares are outstanding as follows:

	Number of shares	
	Options granted to officers	Options granted to employees
At $3.04 per share	—	564
At $3.38 per share	—	1,860
At $3.50 per share	19,200	9,600
At $4.05 per share	—	14,400
At $4.28 per share	30,400	—
At $5.52 per share	1,800	—
At $5.74 per share	—	1,800
	51,400	28,224

These options are exercisable in instalments over periods ending March, 1982.

5. Commitments and contingencies

A. Under the terms of the agreement whereby the Company acquired the outstanding common shares of Russelsteel (Alberta) Limited (formerly Hector Steel Industries Limited) the purchase price of $3,400,000 is payable in instalments ending in 1975. Of the total purchase price, $400,000 is payable in cash in annual instalments of $120,000 from 1972 to 1974, with a final payment of $40,000 in 1975. The balance of $3,000,000 is payable over the same period, the amounts payable in each year being determined by a formula related to the net earnings of this subsidiary. This balance may be paid in cash, common shares, other securities of the Company convertible into common shares, or a combination of these, at the Company's option. The total payment required in 1973 is included in current liabilities.

B. In 1968, Ceeco Machinery Manufacturing Limited purchased another business. The amount to be paid and the timing of the payments are determined by net earnings for the five years ending February 28, 1973. The amount required for this commitment based on net earnings to December 31, 1972, is included in current liabilities.

C. Effective January 1, 1972, the Company acquired all of the outstanding shares of Sumner Holdings Limited and Moncton Hardware Limited for a total price not to exceed $4,000,000. Of this amount, $1,500,000 was paid in 1972 and the balance is payable in instalments based on net earnings of the companies for the years 1972 to 1976. This balance may be paid in cash, common shares, other securities of the Company convertible into common shares, or a combination of these, at the Company's option. The total payment required in 1973 is included in current liabilities.

Effective July 1, 1972, Sumner Holdings Limited acquired all the outstanding shares of T. P. Calkin Limited and Dimension Developments Limited for a total of $1,000,000. Of this amount, $650,000 was paid in cash and the remainder is payable in five annual instalments of $70,000, plus accrued interest, commencing in 1973.

The net assets obtained in these acquisitions, which were accounted for as purchases, are as follows:

Tangible assets, at book value	$ 8,459,569
Less liabilities, at book value	5,083,124
	$ 3,376,445
Adjustments to reflect fair value of tangible assets	293,000
Goodwill in accounts of businesses acquired	432,232
Adjustments to premiums paid on acquisitions	(1,076,730)
	$ 3,024,947
Consideration paid or payable at December 31, 1972:	
Cash	$ 2,176,791
Long-term debt (including current portion)	350,000
Contractual obligation (including current portion)	498,156
	$ 3,024,947

Premiums paid on acquisitions (net of discounts) are carried in the accounts at cost without amortization unless the related business is sold or suffers a permanent decline in value.

6. Lease commitments

The Company and its subsidiaries are committed to annual rental payments of approximately $292,400 on leases expiring in the years 1973 to 1990.

7. Depreciation

Except for the Sumner group, the Company and its subsidiaries provide for depreciation on a straight-line basis, using rates of 2½% and 5% for buildings, and 10% for machinery and equipment. The Sumner group uses the reducing balance method with rates of 5% and 10% for buildings, and 20% for machinery and equipment.

8. Extraordinary items

The extraordinary items represent gains on the sales of surplus land amounting to $359,138, a tax saving of $63,500 resulting from the carry-forward of prior years' losses of one subsidiary and a loss on disposal of the investment in Barker-Thorne of $102,353 after deducting applicable income taxes.

9. Earnings per share

The figure of fully-diluted earnings per share shows the effect on earnings if at the beginning of the year, all outstanding first preferred shares had been converted to common shares, and all stock options had been exercised, and the cash received had been invested at an annual rate of 8.7% after taxes to yield $27,805.

10. Change in accounting practice

During 1972, Russelsteel (Alberta) Limited and its subsidiaries changed their method of calculating depreciation in order to be consistent with the other companies in the steel distribution group. Prior years' figures have been altered where necessary to give effect to this change which is not material in relation to net earnings for 1971 and 1972.

11. Remuneration of directors and officers

The Company has ten directors and seven officers, six of whom are directors. For the year ended December 31, 1972, the following amounts are charged in the consolidated statement of earnings.

	Charged by Hugh Russel Limited	Charged by Russelsteel Limited	Total
Directors, as directors	$ 3,400	$ 1,500	$ 4,900
Officers, as officers	$213,827	$165,354	$379,181

12. Contributed surplus

Contributed surplus of $2,514 at December 31, 1971 resulted from the purchase for cancellation of first preferred shares in 1971 at less than par; the additional amount of $77,058 recorded in 1972 is primarily the excess of proceeds over par value of first preferred shares issued in 1971 not finally determined until 1972.

Prior to 1971, the Company did not have any contributed surplus.

13. Event subsequent to year-end

A. On January 9, 1973, the Company arranged to issue 500,000 Class "A" common shares through Wood Gundy Limited, as underwriters, for cash of $11.34 per share. Payment for these shares was received on January 18, 1973, and was applied to reduce outstanding bank loans.

B. On January 9, 1973, the Company agreed to issue $5,000,000 in Series "C" debentures through Wood Gundy Limited for a total of $5,000,000, plus accrued interest from February 1, 1973. The net proceeds of this issue were received on February 1, 1973 and applied to reduce outstanding bank loans.

Auditors' Report

Clarkson, Gordon & Co.

Chartered Accountants

Royal Trust Tower
P.O. Box 251 Toronto-Dominion Centre
Toronto 111, Canada

To the Shareholders of
Hugh Russel Limited:

We have examined the consolidated balance sheet of Hugh Russel Limited and its subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Hugh Russel Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the basis of calculating depreciation referred to in note 10 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada
February 5, 1973.

Clarkson, Gordon & Co.
Chartered Accountants

HUGH RUSSEL LIMITED

HEAD OFFICE

8 King St. E. — Toronto

SUBSIDIARY COMPANIES

Russelsteel Limited
Russelsteel (Alberta) Limited
Russelsteel (B.C.) Limited
Larson & Epp Industries Limited
Canadian Bearings Co. Limited
Ceeco Machinery Manufacturing Limited
Sumner Holdings Limited
Sumner Company Limited
Moncton Hardware Limited
Emerson & Fisher ('70) Ltd.
W. Cockram & Co. Limited
T. P. Calkin Limited
Kentville Hardware Limited
Middleton's Hardware Store Limited
Dimension Developments Limited
T. P. Calkin Investments Limited
Russel Tradecorp Limited

DIRECTORS

J. P. FOSTER	Toronto
M. D. GLENN	Montreal
R. HARTOG	Toronto
K. D. MOONEY	Toronto
J. D. REILLY, Q.C.	Toronto
L. A. ROBIDOUX	Montreal
A. D. RUSSEL	Toronto
G. D. RUSSEL	Montreal
G. D. SHEARER, C.A.	Montreal
J. W. VINGOE	Toronto

EXECUTIVE OFFICERS

G. D. RUSSEL	Honorary Chairman of the Board
A. D. RUSSEL	Chairman of the Board
J. P. FOSTER	President
M. D. GLENN	Vice-President
J. D. REILLY, Q.C.	Secretary
G. D. SHEARER, C.A.	Treasurer
J. M. O'SULLIVAN	Assistant Secretary

REGISTRARS AND TRANSFER AGENTS

The Royal Trust Company

STOCK EXCHANGES

Montreal and Toronto

AUDITORS AND SOLICITORS

AUDITORS — Clarkson, Gordon & Co.

SOLICITORS — Salter, Reilly, Jamieson & Apple

ANNUAL MEETING

REGENCY HYATT HOTEL, TORONTO
Regency Ballroom
3:00 p.m.
March 29, 1973.

HUGH RUSSEL LIMITED

acquisition...

HUGH RUSSEL LIMITED

EXPANDS INTO DISTRIBUTION OF HARDWARE AND HOME BUILDING MATERIALS.

The following information was released to the press on February 21, 1972

"Messrs. A. D. Russel and George T. Urquhart, Presidents of Hugh Russel Limited and Sumner Holdings Limited, are pleased to announce that the Sumner organization has agreed to join the Hugh Russel group of companies.

Hugh Russel Limited of Toronto, is a diversified and growing company serving Canadian industry through the distribution of a wide range of industrial products and the design and sale of engineered products. Sales for the year ended December 31, 1971 were $67 million.

With head office in Moncton, Sumner is a leading distributor of hardware and building materials, plumbing and heating supplies, electrical appliances and sporting goods, serving the Maritimes and the Gaspe coast of Quebec through seven branches in three provinces.

Sumner also owns W. Cockram & Co. Ltd. of Brantford, Ontario, a manufacturer of oil and gas fired domestic hot water furnaces and the developer of patented sewage disposal units for cottage, farm, commercial, industrial and marine use.

For the eleven months ended December 31, 1971, the companies in the Sumner group had consolidated sales of approximately $10 million.

The investment in Sumner is an important step forward for Hugh Russel because it moves the company into an important distribution market not previously served.

Mr. Urquhart and his management team will continue to guide the business affairs of this growing, independent Maritime business."

To elaborate on this information, Sumner has, at the present time, wholesale branches in New Brunswick, Nova Scotia, P.E.I. and the Cockram plant in Ontario. Through its wholesale and retail merchandising programs Sumner supplies the building trades and retail hardware stores with a broad range of products. The company's fine reputation in the Maritime Provinces has been built by dedicated service to its customers.

The acquisition of W. Cockram & Co. Ltd. of Brantford, Ontario in 1965 strengthened the marketing position of Sumner in the Maritimes by providing a source of high quality domestic hot water furnaces. Since 1965 a considerable investment has been made in Cockram to expand capacity and fund research on the sewage disposal unit. This unit is now available for commercial and marine installation; research continues on a smaller unit for cottage and farm use.

Market coverage was further expanded through the acquisition in 1970 of Emerson & Fisher of Saint John. This long established wholesaler of hardware and building materials now carries the full Sumner line of products.

Hugh Russel Limited has the objective of providing its shareholders with an above average return on their investment through the planned growth of both existing and new investments. In the continual search for investment opportunities, the company's interest is and will continue to be in substantial companies with proven records of growth in profits and most importantly, with strong continuing management.

Hugh Russel Limited has long advocated the necessity of building its management strength and organization, side by side with the growth in its physical assets. Hugh Russel believes the critical factor limiting growth is people. In this regard, the management team of Sumner headed by Mr. Urquhart will provide a welcome addition to the company's management resources. Having prospered in the Maritime Provinces it is expected the Sumner Group should be able to grow from that geographic base.

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HUGH RUSSEL LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

MARCH 30, 1972

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of HUGH RUSSEL LIMITED (the "Company") will be held in the Alberta Room of The Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Thursday, March 30th, 1972, at the hour of 11:00 o'clock in the forenoon, Toronto time:

1. to receive the Annual Report, the Consolidated Financial Statements of the Company and its subsidiaries for the period ended December 31, 1971, together with the Report of the Auditors thereon;

2. to elect Directors;

3. to appoint Auditors and to authorize the directors to fix their remuneration; and

4. to transact such other business as may properly come before the meeting, or any adjournment thereof.

A copy of the Annual Report and Information Circular accompany this notice.

Shareholders who are unable to attend the meeting in person are requested to fill in, date, sign and return in the envelope provided for that purpose, the enclosed form of proxy.

DATED at Toronto the 17th day of February, 1972.

BY ORDER OF THE BOARD

J. D. REILLY, Q.C.
Secretary.

INFORMATION CIRCULAR

as of February 17, 1972

SOLICITATION OF PROXIES OF CLASS A AND CLASS B COMMON SHARES

This information circular is furnished in connection with the solicitation by the management of HUGH RUSSEL LIMITED (the Company) of proxies to be used at the annual meeting of shareholders of the Company to be held at the time and place and for the purposes set forth in the accompanying notice of meeting. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO by inserting such person's name in the blank space provided in the form of proxy and striking out the names of the two specified persons or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company.

A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing a written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the meeting.

EXERCISE OF DISCRETION BY PROXY

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. IN THE ABSENCE OF SUCH DIRECTION, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF THE DIRECTORS' REPORT AND FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS AND THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular, the management of the Company knows of no such amendment, variation or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES

On February 17, 1972, the Company had outstanding 280,243 Class A Common shares without par value and 360,676 Class B Common shares without par value, (the Class A Common shares and the Class B Common shares being hereafter collectively referred to as "Common shares"), each carrying the right to one vote per share, so that the aggregate

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the reappointment of Clarkson, Gordon & Co., Chartered Accountants, as Auditors of the Company to hold office until the next annual meeting of shareholders. Clarkson, Gordon & Co. have been Auditors of the Company for more than five years.

GENERAL

The management knows of no matters to come before the annual meeting of the shareholders other than the matters referred to in the notice of meeting. If, however, any other matters properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the person voting the proxy.

By Order of the Board
J. D. Reilly, Q.C.
Secretary.

Dated as of February 17, 1972.

number of votes attaching to all the outstanding Common shares is 640,919. Mr. A. D. Russel was the beneficial owner of record of 130,028 Common shares. Russel Holdings Limited, controlled by Mr. A. D. Russel, was the owner of record of 100,000 Common shares. Thus A. D. Russel controls a total of 230,028 Common shares representing 35.9% of the outstanding Common shares of the Company.

Holders of Common shares of record at the time of the annual meeting will be entitled to vote at such meeting.

ELECTION OF DIRECTORS

The board presently consists of ten directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the board of directors and have been since the dates indicated. The management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual Meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as directors, all other positions and offices of the Company now held by them, their principal occupations or employments, the year in which they became directors of the Company, and the approximate number of Common shares of the Company beneficially owned directly or indirectly by each of them, as of February 17, 1972.

Name and Principal Occupation	Became Director	Common Shares
J. P. FOSTER Executive Vice-President, Hugh Russel Limited	1966	1,070
M. D. GLENN President, Russelsteel Limited Vice-President, Hugh Russel Limited	1962	5,400
ROBBERT HARTOG President, Kitchen Installations Ltd.	1962	4,000
K. D. MOONEY President, Valley Camp Limited	1968	1,000
J. D. REILLY, Q.C. Partner of the Legal Firm of Salter, Reilly, Jamieson & Apple Secretary, Hugh Russel Limited	1962	2,000
L. A. ROBIDOUX Division Manager, Russelsteel Limited	1964	528
A. D. RUSSEL President, Hugh Russel Limited	1939	130,028 (1)

Name and Principal Occupation	Became Director	Common Shares
G. D. RUSSEL Chairman of the Board Hugh Russel Limited	1931	57,842
G. D. SHEARER, C.A. Treasurer, Hugh Russel Limited and Russelsteel Limited	1968	3,800
J. W. VINGOE Vice-President, Massey Ferguson Industries Limited	1962	800

NOTE: (1) Mr. A. D. Russel controls a family holding company, Russel Holdings Limited, which is the beneficial owner of record of 100,000 of the Company's Common shares.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

(1) Aggregate direct remuneration paid or payable by the Company and its subsidiaries in 1971 to the Directors and Senior Officers of the Company 274,328

(2) Estimated aggregate cost to the Company and its subsidiaries in 1971 of all pension or retirement benefits proposed to be paid to the Directors and Senior Officers of the Company under existing plans in the event of retirement at normal retirement age $18,235

(3) The Company has an Employees' Stock Option Plan authorizing the granting of options to full time employees of the Company and its subsidiaries (including Officers and Directors who are employees but not Directors as such) to purchase unissued Class A Common shares of the Company. The options are granted in consideration of their services and are exercisable over a ten year period from the date granted. The option price is equal to 90% of the closing bid on the Toronto Stock Exchange on the day preceding the granting of the option.

Information as to options since the commencement of the Company's last completed financial year in respect of all the officers of the Company and its subsidiaries shown in the table below.

OPTIONS GRANTED

Date	No. of shares	Option Price	Price range during 30 day period preceding date of grant High	Low
August 19, 1971	17,000	$7.00	9¼	7¾

No options were exercised by the senior officers of the Company and its subsidiaries during the last completed financial year.

The Plumbing and Heating, Hardware and Building Materials Division

Hugh Russel Limited moved into the large and growing plumbing and heating, hardware and building materials market with the acquisition of the Sumner Group of companies in the Maritimes early this year. This distribution market, not previously served by Hugh Russel, is tied closely to the major home building and home improvement market which we believe will be one of the areas of greater growth during the seventies.

On August 2, 1972, through Sumner Holdings Limited, Hugh Russel Limited formally acquired T. P. Calkin of Halifax and Kentville, Nova Scotia.

Prior to the acquisition of T. P. Calkin, Sumner Company had distribution facilities in the Maritime Provinces with the exception of Halifax-Dartmouth, Valley and the South Shore of Nova Scotia. The manner in which expansion might be undertaken into these markets had been the subject of intensive study by the President of Sumner, Mr. George Urquhart, over the past two years. The opportunity to acquire the Calkin firm provided a nearly ideal solution.

Long established and well regarded, T. P. Calkin holds a growing position in the important Halifax-Dartmouth market. A recently constructed Halifax warehouse is enabling the company to increase product coverage and improve service to the trade.

Calkin specializes in plumbing and heating wholesaling and also markets hardware, building materials and sporting goods. Sales, currently $5 million to $6 million per year, will increase as the broader lines of Sumner are introduced by the Calkin outlets.

In addition to its wholesale warehouses, Calkin operates three retail outlets bringing to five the number of retail stores operated by the Sumner Group.

The expansion of the Sumner Group in the Maritimes is another step forward in Hugh Russel's planned growth in the field of wholesale industrial distribution.

Sewage Treatment Prototype Sold to Federal Government

W. Cockram & Co., Ltd., a wholly owned subsidiary of Hugh Russel Limited, has received an order from the Department of Supply & Services for a new type of package sewage treatment plant to be installed at the Kashechewan Indian settlement in Northern Ontario. This unique patented unit will handle the sewage from a school and teachers' dwellings now under construction. The Cockram S.T. 70 unit is also capable of processing residential and industrial sewage under conditions where conventional disposal units would irreparably damage the ecology. This unit is a low cost, low volume plant, designed to handle small residential sub divisions, trailer camps, marinas and the like.

The unit sold to the Federal Government met specifications which required that sewage be treated to the point where the effluent could be discharged back into the Albany river without harm to the natural waters.

The Company is continuing its development of a still smaller unit practical for homes, cottage and farm use.

SECOND QUARTER REPORT 1972

Corp report

HUGH RUSSEL LIMITED

8 KING STREET EAST, TORONTO, ONTARIO
TEL. (416) 363-0341

HUGH RUSSEL LIMITED

SECOND QUARTER 1972 RESULTS

In the three months ended June 30, 1972, Hugh Russel Limited again achieved record sales and earnings bringing results for the first six months of 1972 to record levels. Sales of $44,126,840 for the first six months of 1972 are up 36% over sales of $32,330,180 for the comparable period of 1971. It should be borne in mind that sales for the current period include sales for the Sumner Group in the Maritimes.

Net earnings of $888,505 or $1.21 per common share compared to $277,677 or 27¢ per common share for the first six months of 1971.

General business conditions continue to improve with both the east and west being particularly strong. The contribution to earnings from the Sumner Group is on budget. Earnings from this source will be increased as results from T. P. Calkin are included after July 1, 1972. New orders are being received by the engineering sales division at an encouraging rate and results for the full year should be satisfactory.

The financial results now emerging are encouraging, reflecting as they do, the growing earning power of the company. Results of Western operations of Russelsteel were particularly strong versus a year ago. Further earnings growth is expected as results are obtained from a number of continuing activities. Consolidation of our steel distribution division is increasing efficiency; the engineering sales division activities are being expanded; the plumbing and heating, hardware and building materials division, so far only partially reflected in our figures, will show increasing profits as efficiency is increased through consolidation.

Our objective continues to be planned growth. The profitable base of operations so far established gives confidence that future earnings goals will be achieved.

August 8, 1972.

HUGH RUSSEL LIMITED, AND SUBSIDIARY COMPANIES

(Unaudited)

Consolidated Income Statement for the 3 and 6 month periods ended June 30, 1972
(with comparative figures for 1971)

	1972		1971	
	3 Months	6 Months	3 Months	6 Months
Net Sales	$25,050,245	$44,126,840	$18,165,268	$32,330,180
Earnings from operations before deducting the following:	$ 1,416,191	$ 2,388,350	$ 788,579	$ 1,178,037
Depreciation	181,724	361,744	160,337	321,037
Interest on long-term debt	119,897	245,513	87,360	134,484
Earnings before income taxes and minority interest	$ 1,114,570	$ 1,781,093	$ 540,882	$ 722,516
Provision for income taxes	559,833	892,588	314,721	424,839
Minority Interest	—	—	10,000	20,000
Net earnings for the period	$ 554,737	$ 888,505	$ 216,161	$ 277,677
Earnings per common share	$0.77	$1.21	$0.26	$0.27
Fully diluted earnings per share	$0.55	$0.88	$0.26	$0.27

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

For the 6 months ended June 30, 1972
(with comparative figures for 1971)
(Unaudited)

	1972	1971
Funds were obtained from:		
Operations — Net Earnings for the period	$ 888,505	$ 277,677
Expenses not requiring a current cash outlay		
Depreciation	361,744	321,037
Income taxes — deferred portion	107,527	(16,022)
	$1,357,776	$ 582,692
Employees' share purchase plan	59,688	46,040
Stock options exercised	80,242	—
Other long-term debt	83,000	—
Sale of fixed assets (net)	117,051	46,958
Sale of debentures	—	3,000,000
Contributed surplus	77,059	—
	$1,774,816	$3,675,690
Funds were applied to:		
Purchase shares of Sumner Holdings Limited	$1,500,000	$ —
Less working capital acquired	1,809,042	—
	($ 309,042)	$ —
Additions to facilities	$ 362,170	$ 182,823
Pay dividends on common shares	130,038	126,607
Pay dividends on preferred shares	104,268	107,250
Retire debentures	34,000	115,000
Retire other long-term debt	7,162	120,067
Redeem preference shares	14,500	—
Increase in premium on business previously acquired	127,240	24,500
Repay contractual obligation	342,349	—
	$ 812,685	$ 676,247
Increase in working capital	$ 962,131	$2,999,443